

Company Result

30 June 2020

Hai-O Enterprise Berhad

Outlook remains challenging

SELL

Maintained

Share Price	RM1.86
Target Price	RM1.30

Result

Company Description

Hai-O Enterprise Berhad is offering a wide range of Chinese medicines, medicated tonic, wellness, beauty and healthcare.

Stock Data

Bursa / Bloomberg code	7668 / HAIO MK
Board / Sector	Industrial/Food & Drug Retailers
Syariah Compliant status	No
Issued shares (m)	290.29
Par Value (RM)	0.50
Market cap. (RMm)	539.95
52-week price Range	RM1.12 – 2.77
Beta (against KLCI)	0.94
3-m Average Daily Volume	0.20m
3-m Average Daily Value ^A	RM0.32m

Share Performance

	1m	3m	12m
Absolute (%)	-0.5	37.8	-15.8
Relative (%-pts)	-1.9	27.6	-5.8

Major Shareholders

	%
Kai Hee Tan	10.27
Akintan Sdn Bhd	8.09
Excellent Communications	5.36

Historical Chart



Source: Bloomberg

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- **Hai-O posted a net profit of RM9.6m during 4QFY20, which rose 26.3% qoq but down 7.7% yoy. Meanwhile, revenue was sluggish, -19.9% qoq and -23.3% yoy.**
- **As for full year FY20, the Group recorded a net profit of RM32.2m which slid 32.4% yoy on the back of slumbering revenue of RM255.2m (-22.3% yoy).** The disappointing performance was dented by poor results from all of its segments in view of lower sales incurred during movement control order (MCO) arising from COVID-19 pandemic which halted the business operations.
- **Above expectations.** Nevertheless, 12MFY20 net profit of RM32.2m is substantially above our and consensus expectations, accounting for 111.8% of full year earnings estimates. The higher-than-expected results are underpinned by robust sales from Puer-tea coupled with exports of bird nest products under Wholesale division.

Comment

- **Stellar QoQ earnings from MLM segment failed to boost overall Group's performance.** The Groups' revenue and PBT deteriorated 19.9% qoq and 0.9% qoq respectively during 4QFY20. Lower revenue recorded was due to lower sales across all of its segments (revenue for MLM: -3.8% qoq; Wholesale: -35.3% qoq; Retail: -47.6% qoq) as the Group's business operation ran at minimal level during MCO period. Meanwhile, PBT was dragged down by poor results from Wholesale and Retail segments (PBT margin for each segment dropped 7.2ppts and 21.9ppts respectively). However, PBT from MLM segment soared by 9.0ppts, thanks to social media as a platform for marketing and campaign activities which helped the operating efficiencies.
- **Disappointing YoY results bogged down by dismal showings from all segments.** Hai-O PBT dropped 21.0% yoy amid dwindling revenue, -23.3% yoy. The result was dampened by sluggish performances from MLM segment (revenue:-25.5% yoy; PBT:-1.9% yoy), Wholesale segment (revenue:-10.7% yoy; PBT:-35.6% yoy) and Retail segment (revenue:-35.6% yoy; LBT: RM0.9m) due to lower sales impacted by COVID-19 pandemic. Moreover, PBT was also deteriorated by credit loss amounting RM1.1m from Wholesale division as required under MFRS16.

- **COVID-19 dented FY20.** Cumulatively, Hai-O's 12MFY20 revenue and PBT fell 34.3% yoy and 22.3% yoy respectively following lower contributions from MLM, Wholesale and Retail segments amid challenging business environment pursuant to COVID-19 pandemic as well as poor consumer spending.
- **Challenging outlook ahead.** Hai-O remains pessimistic about the Group's outlook amid current economic condition coupled with pandemic outbreak which dampen overall consumer sector. As the entire segments are being deteriorated by weak consumer sentiment, the Group believes its MLM segment will quickly adapt to the new changes and able to grow in the new norms. Moreover, Hai-O is committed to emphasis on several strategies for their business such as cost-optimism strategies, re-strategize business plans as well as works toward digital and e-commerce platforms. Looking forward, we expect the Group's operating outlook will be challenging in the immediate term and might be further bogged down by MLM division on the back of fewer new member recruitment and member renewal amid lack of incentives campaign as well as uninspiring consumer demand towards its core products (i.e. Chinese medicated tonic and other healthcare and wellness products) amid current pandemic situation.
- **Final dividend declared.** The Group has declared a final single-tier dividend of 4sen/share during 4QFY20, which brings total dividend payout of 10sen/share for FY20. This translates into a dividend yield of 5.4% based on current share price.

Earnings Outlook/Revision

- **We cut our earnings forecasts for FY21F by 36.3% to RM20.9m** after lowering our sales assumptions for MLM division to better reflect its lower new member recruitment as well as fewer sales from Wholesale and Retail due to pandemic situation. We also introduce FY22F earnings of RM29.9m.

Valuation & Recommendation

- **Maintain SELL call with a higher target price of RM1.30 (from RM1.00) as we roll over our valuation to FY22F.** Our valuation is now pegged at 13.1x FY22F EPS of 9.9sen which is below -1 SD of 3-year historical PE of 13.4x.
- **Risks include:** 1) Higher-than-expected operating expenses (i.e. higher marketing and branding expenses) and 2) Lower-than-expected domestic spending due to higher cost of living. 3) COVID-19 pandemic weighed down overall business Group's performance.

Figure 1: Quarterly Figures

Year ended 30 April	4QFY20	3QFY20	4QFY19	QoQ	YoY	12MFY20	12MFY19	YoY
	RM'm	RM'm	RM'm	%	%	RM'm	RM'm	%
Revenue	53.7	67.0	70.0	-19.9%	-23.3%	255.2	328.4	-22.3%
Gross profit	23.0	27.2	25.7	-15.4%	-10.5%	99.4	126.2	-21.2%
Operating profit	10.8	10.8	13.4	0.0%	-19.4%	41.0	62.2	-34.1%
PBT	10.9	11.0	13.8	-0.9%	-21.0%	41.6	63.4	-34.3%
PAT	9.3	7.9	10.1	17.7%	-7.9%	32.0	47.4	-32.4%
Net profit	9.6	7.6	10.4	26.3%	-7.7%	32.2	47.7	-32.4%
Margin (%)				ppts	ppts			ppts
Gross profit margin	42.8%	40.6%	36.7%	2.2	6.1	39.0%	38.4%	0.5
EBIT margin	20.1%	16.1%	19.1%	4.0	1.0	16.1%	18.9%	-2.9
PBT margin	20.3%	16.4%	19.7%	3.9	0.6	16.3%	19.3%	-3.0
PAT margin	17.3%	11.8%	14.4%	5.5	2.9	12.6%	14.4%	-1.9
Net profit margin	17.9%	11.3%	14.9%	6.5	3.0	12.6%	14.5%	-1.9

Source: Company, JF Apex

Figure 2: Revenue and PBT by division

Year ended 30 April	4QFY20	3QFY20	4QFY19	QoQ	YoY	12MFY20	12MFY19	YoY
	RM'm	RM'm	RM'm	%	%	RM'm	RM'm	%
MLM division	35.3	36.7	47.4	-3.8%	-25.5%	156.7	224.9	-30.3%
Wholesale division	10.8	16.7	12.1	-35.3%	-10.7%	57.4	59.0	-2.7%
Retail division	6.5	12.4	10.1	-47.6%	-35.6%	36.7	40.6	-9.6%
Total Revenue	52.6	65.8	69.6	-20.1%	-24.4%	250.8	324.5	-22.7%
MLM division	10.2	7.3	10.4	39.7%	-1.9%	32.0	46.5	-31.2%
Wholesale division	0.9	2.6	2.0	-65.4%	-55.0%	5.2	11.9	-56.3%
Retail division	(0.9)	1.0	0.4	N/A	N/A	0.1	0.9	-88.9%
Total PBT	10.2	10.9	12.8	-6.4%	-20.3%	37.3	59.3	-37.1%
PBT margin (%)				ppts	ppts			
MLM division	28.9%	19.9%	21.9%	9.0	7	20.4%	20.7%	-0.3
Wholesale division	8.3%	15.6%	16.5%	-7.2	-8.2	9.1%	20.2%	-11.1
Retail division	-13.8%	8.1%	4.0%	-21.9	-17.8	0.3%	2.2%	-1.9

Source: Company, JF Apex

Figure 3: Financial Summary

Year ended 30 April	FY17	FY18	FY19	FY20	FY21F	FY22F
	RMm	RMm	RMm	RMm	RMm	RMm
Revenue	404.0	461.8	328.4	255.2	249.8	278.1
Gross profit	132.9	162.2	126.2	99.4	89.8	103.1
Operating profit	77.3	97.6	62.2	41.0	30.1	41.1
PBT	78.1	99.0	63.4	41.6	30.7	41.6
PAT	59.2	75.1	47.5	32.0	20.7	29.6
Net profit	59.3	75.4	47.7	32.2	20.9	29.8
Margin (%)						
Gross profit margin	32.9%	35.1%	38.4%	38.9%	35.9%	37.1%
Operating profit	19.1%	21.1%	18.9%	16.1%	12.0%	14.8%
PBT margin	19.3%	21.4%	19.3%	16.3%	12.3%	14.9%
PAT margin	14.7%	16.3%	14.4%	12.5%	8.3%	10.6%
Net profit margin	14.7%	16.3%	14.5%	12.6%	8.4%	10.7%
Growth (%)						
Revenue growth	35.7%	14.3%	-28.9%	-22.3%	-2.1%	11.3%
Gross Profit growth	31.0%	22.1%	-22.2%	-21.2%	-9.7%	14.8%
PBT growth	59.2%	26.8%	-36.0%	-34.3%	-26.3%	35.5%
PAT growth	61.9%	26.9%	-36.8%	-32.5%	-35.4%	43.0%
Net profit growth	63.1%	27.2%	-36.7%	-32.5%	-35.2%	42.6%
Net gearing	Net cash	Net cash	Net cash	Net cash	Net cash	Net cash
ROA	16.3%	19.0%	13.1%	8.9%	8.0%	10.0%
ROE	20.0%	23.6%	14.9%	10.4%	10.0%	12.0%
EPS (sen)	19.7	25.1	15.9	10.7	6.9	9.9
P/E	0.09	0.07	0.12	0.17	0.27	0.19
DPS (sen)	0.16	0.20	0.13	0.10	0.09	0.10
Dividend Payout	0.8%	0.8%	0.8%	0.9%	1.3%	1.0%
Dividend yield (%)	8.6%	10.8%	7.0%	5.4%	4.8%	5.4%

Source: Company, JF Apex

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JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK
STOCK RECOMMENDATIONS

BUY : The stock's total returns* are expected to exceed 10% within the next 12 months.

HOLD : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.

SELL : The stock's total returns* are expected to be below -10% within the next 12 months.

TRADING BUY : The stock's total returns* are expected to exceed 10% within the next 3 months.

TRADING SELL : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.

MARKETWEIGHT : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.

UNDERWEIGHT : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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